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FISCAL IMPACT STATEMENT

LS 7477 **NOTE PREPARED:** Jan 18, 2005
BILL NUMBER: HB 1721 **BILL AMENDED:**

SUBJECT: Use of Spending Limit Savings for Pension Relief.

FIRST AUTHOR: Rep. Buck **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill requires that surplus revenues exceeding the amount that may be expended under the state spending cap be deposited in the Pension Stabilization Fund (PSF) for the Teachers' Retirement Fund (TRF). It makes an annual appropriation.

Effective Date: July 1, 2005.

Explanation of State Expenditures: *Summary:* This bill annually appropriates to the Pension Stabilization Fund any revenues for deposit into the state General Fund or the Property Tax Replacement Fund (PTRF) that are in excess of the state spending cap. The spending cap for FY 2006 is $12,935,108,967, and the cap for FY 2007 is $13,443,680,434.

Deposits into the Pension Stabilization Fund from this provision will depend on the state revenue levels in future years. Based on the December 14, 2004, revenue forecast, state General Fund and PTRF revenues are forecast to be *under* the spending caps for the next biennium ($11,736.6 M for FY 2006 and $12,356.6 M for FY 2007).

Background Information on the Determination of Expenditure Limits: Current statute provides for a maximum annual percentage change for state government expenditures to be based on the percentage change in Indiana nonfarm personal income over the previous six calendar years. The limit excludes expenditures of revenue derived from gifts, federal funds, dedicated funds, intergovernmental transfers, damage awards, or property sales. Expenditures from transfers of funds between the General Fund, the PTRF and Rainy Day Fund, reserve fund deposits, refunds of intergovernmental transfers, state capital projects, judgements or settlements, distributions of specified state tax revenues to local units, and Motor Vehicle Excise Tax replacement payments are also exempt from the expenditure limits. The expenditure limit is applied to appropriations from the General Fund, the Property Tax Replacement Fund, and the Counter-Cyclical Revenue and Economic Stabilization Fund (Rainy Day Fund).

The statute directs the Budget Agency to compute the new state spending growth quotient before December 31 in each even-numbered year. The state spending growth quotient is equal to the lesser of the six-year average increase in Indiana nonfarm personal income or 6%. The statute allows the state spending cap to be increased or decreased to account for new or reduced taxes, fees, exemptions, deductions, or credits adopted after June 30, 2002.

The spending limit applied to appropriations beginning in FY 2004. The statute limited expenditure increases to 3.5% annually for FY 2004 and FY 2005, with the statutory formula for the calculation of expenditure limits to take effect beginning FY 2006.

Below is a table which shows the spending caps for FY 2004 through FY 2007.

	Spending Cap
FY 2004	$12,024,904,972
FY 2005	$12,445,776,646
FY 2006	$12,935,108,967
FY 2007	$13,443,680,434
Nonfarm personal income 6-year average is 3.93%.	

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected:

Local Agencies Affected:

Information Sources: Dave Reynolds, Deputy Budget Director, Office of Management Budget, 317-233-5707.

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